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TAGS: ECON ETRD EG

SUBJECT: EGYPT: TRADE MINISTER DISCOURSES POLITICAL
CONDITIONS ON FREE TRADE TALKS

REF: CAIRO 364

Classified By: Ambassador Margaret Scobey for reasons 1.4 (b) and (d).

¶1. (C) SUMMARY: Minister of Trade and Industry Rachid Mohammed Rachid told the Ambassador in an introductory call that Egyptian reformers would view a free-trade agreement with the United States as a catalyst for reform, arguing that the 2006 U.S. decision to back away from the launch of free-trade negotiations for political reasons was a strategic mistake. Thanks to the private sector, US-Egyptian trade has continued to grow rapidly, leaving little for the governments to discuss on a bilateral basis other than a free-trade agreement, he said. Rachid did urge support for a joint Egyptian-Israeli request to expand the Qualified Industrial Zone into Upper Egypt. Rachid also said the ministry had urged the Ministry of Defense to cooperate with USG plans to inspect GOE port security. END SUMMARY.

¶2. (C) In an introductory call by the Ambassador, Trade Minister Rachid Mohammed Rachid reviewed the recent history of US-Egyptian moves toward negotiations of a Free Trade Agreement (FTA), which culminated in a USG decision in the spring of 2006 to not launch negotiations because of political setbacks in Egypt, including the imprisonment of former presidential candidate Ayman Nour.

¶3. (C) Rachid, a strong proponent of economic reform, said that allies of reform in the GOE had expected that an FTA with the US would serve as a catalyst for further reform, strengthening their efforts and deepening economic and political ties with the United States. However, he said that an FTA would not have been significant to the GOE in terms of opening new US markets. The USG made a "strategic mistake" in assuming that Egypt wanted an FTA for purely economic reasons and would be willing to trade political concessions for it, he said.

¶4. (C) Following the USG decision to back away from FTA talks, the GOE has been increasing economic engagement with the European Union and Asian and African nations, he said. These moves are not meant to upset the United States, but are a response to the GOE interest in furthering integration with the international economy, he said. As a result of ongoing trade-promotion talks with the EU, Egyptian-EU trade and investment will increase, and Egypt will increasingly adopt European standards and a European orientation in its economy, he said.

¶5. (C) In response to a question from the Ambassador about GOE interest in updating the US-Egyptian Bilateral Investment Treaty or holding formal discussions on other bilateral economic issues, Rachid said that he saw little for the governments to discuss outside the context of FTA

negotiations. Thanks to the private sector, he said, trade between the countries has increased sharply during the last two years. (Note: From 2005 through 2007, bilateral trade increased 47 percent to 7.7 billion dollars, including a 69-percent increase in US exports to Egypt and a 14-percent increase in Egyptian exports to the US. The US trade surplus in 2007 was nearly \$3 billion.)

¶ 16. (C) Rachid noted the joint Egyptian-Israeli request to the USG to expand the Qualified Industrial Zone (QIZ) into Upper Egypt (reftel). Under the 2004 agreement, Egypt exports products from designated zones duty-free to the United States if the products contain 10.5 percent Israeli content. The agreement has not resulted in dramatic increases of exports of Egyptian textiles to the United States, and a further expansion would have little economic impact on the United States while encouraging stronger Egyptian-Israeli cooperation, he said. President Mubarak and Israeli Prime Minister Ehud Olmert -- who as trade minister signed the QIZ agreement in 2004 -- discussed their joint proposal to expand it during a meeting in Egypt last month, he said.

¶ 17. (C) In other issues, Rachid said that he supported the continuation of the public-private US-Egypt Business Council, while noting that the demise of FTA plans diminished the role of the group. In response to a question from the Ambassador, he said that the ministry had urged the Egyptian Ministry of Defense to cooperate with a USG request to inspect Egyptian ports to verify compliance with the International Maritime Organization's International Ship and Port Facility Security Code.

¶ 18. (C) Rachid said he would be in Geneva the following week and looked forward to seeing Ambassador Schwab.

SCOBAY